

# INTERIM REPORT



for the six months ended 30 September 2007

Company registration no. 1906/000622/06  
Share code ILV ISIN ZAE000083846

## Basis of preparation

This report incorporates financial statements which reflect both actual results based on International Financial Reporting Standards ("IFRS") and those determined on a sugar season basis which in the directors' opinion provide a better basis for evaluating the financial performance of the company.

The sugar industry is a seasonal agriculturally based business and the payment processes are such that cash flows throughout the season, which runs from 1 April to 31 March, are derived from the expected tonnages and prices that will be achieved for the season as a whole. The effect of this is that product sales tonnages and prices received, and raw material prices paid are provisional in nature until the conclusion of the season. For this reason the directors consider that profit figures based on actual cash flows may not represent the best basis for evaluating the performance and the results for the period. In respect of the sugar season basis results, operational profits for cane growing and sugar production comprise the company's view of the position at 30 September 2007 as it relates to the season as a whole. All other results are based on actual performance. The amounts disclosed in respect of cane growing and sugar production operations are based on a profit forecast for the year ending 31 March 2008 which has been examined by our auditors, Deloitte & Touche. Their unqualified accountants' report is available for inspection at the company's registered office.

The unaudited actual results for the six months ended 30 September 2007 have been prepared using accounting policies that comply with IFRS and are prepared in accordance with IAS34 (Interim financial reporting). The accounting policies adopted are consistent with those of the previous financial period.

## Review

On a sugar season basis, the group has achieved headline earnings of R284.0 million for the half year, reflecting a 10% improvement over the same period in the previous year. Headline earnings per share of 81.3 cents represents a 7% increase.

Despite an increase in sugar production and improved domestic market sales and prices, group operating profit was similar to that of last year, largely as a result of lower world and regional sugar prices.

Borrowings of R1 577.4 million are R124.3 million higher compared to the same period last year and net financing costs have increased substantially to R72.7 million, mainly as a result of increased capital expenditure and higher interest rates.

Taxation has decreased due to the Zambian subsidiary being recognised as an agricultural operation for tax purposes and also being granted expansion-related tax allowances. This reclassification as an agricultural operation gave rise to a one-off tax credit in respect of past tax years which has impacted the tax cost in the current financial year. The group's tax rate has consequently reduced to 19.9%, but can be expected to increase to around 27% in the following year.

The contributions to operating profit were: sugar production 62%, cane growing 28% and downstream 10%. By country, contributions were South Africa 21%, Malawi 40%, Zambia 17%, Swaziland 9%, Tanzania 10% and Mozambique 3%.

The season-to-date has been affected by variable weather conditions. In South Africa and Swaziland, after a very dry winter, welcome rains were received in late spring. In Malawi localised flooding at Nchalo early in the year negatively impacted on cane yields, whilst in Tanzania, abnormal heavy winter rain during August disrupted factory operations. However, the rest of the group has experienced normal weather conditions which, with effective irrigation and long sunshine hours, have been conducive to good cane growth. In general, the sugar

factories have performed satisfactorily. Assuming normal growing and operating conditions for the remainder of the season, group sugar production is expected to be around 1.875 million tons which is 150 000 tons above that of last year. The main increases in the production forecast have occurred in South Africa, Tanzania, Zambia and Mozambique.

Downstream operations have performed well and output is anticipated to be similar to that of last year. World prices of furfural and its derivative products have been strong.

The world raw sugar price has been volatile, but recently has stabilised at around US10 cents/lb. Last year, the world price rose to almost US20 cents/lb and the South African sugar industry achieved an average realisation of US14.92 cents/lb in respect of world raw sugar sales, whereas in the current year, it is anticipated that the average price will only be slightly over US10 cents/lb. The lower world price has also impacted negatively on regional sales.

Improved opportunities in the European Union (EU) continue to evolve as EU market access arrangements are modified in terms of ongoing trade negotiations. The European Commission has served notice that it will bring to an end the current African, Caribbean and Pacific (ACP) Sugar Protocol Quota arrangements on 30 September 2009. It has offered, against the background of the reformed EU sugar sector, and in the context of an alternative market access offer to be incorporated into regional Economic Partnership Agreements from 1 January 2008, to honour and extend the terms of the Sugar Protocol to 30 September 2009 by granting additional access volumes to both ACP states and suppliers from Least Developed Countries (LDCs) within this period. Thereafter until 2015, the EU envisages duty free, quota free access for LDCs and increased access for those ACP states able to supply. From 2015 onwards, it is intended that duty free, quota free terms would apply to all ACP and LDC suppliers, subject to normal trade safeguards. These developments will ultimately benefit the group, as four of the countries in which it operates, Malawi, Zambia, Tanzania and Mozambique, are classified as LDCs, whilst Swaziland is a member of the ACP group.

The major expansion of the group's production facilities in Zambia is well advanced and significant progress has been made in the areas of canal construction and new land development. The factory upgrade is being phased over two years with the first phase due for commissioning in April 2008, in time to receive increased cane supplies from the first of the estate and grower cane expansions. The second phase of factory expansion is due for completion in April 2009, after which the factory will have the capacity to produce 440 000 tons of sugar per annum, an increase of 200 000 tons per annum compared to current capacity.

The Board has approved a major equity investment of R394 million in a public / private partnership with the Government of Mali, for the construction in Mali, of a new sugar mill which will ultimately produce 200 000 tons sugar per annum, an ethanol plant which will produce 15 000 kilolitres per annum, and an electricity co-generation facility. Illovo will hold a 70% equity stake in this industrial entity, with the balance to be held by private investors and the Government of Mali. The total cost of the factory complex is estimated to be R1.4 billion, of which 40% will be equity-funded and the balance debt-funded. In addition, Illovo will manage a Government-sponsored agricultural development, to produce around 1.5 million tons cane per annum. Sugar production will commence in December 2009, reaching full capacity two years later. The investment is subject to finalising the requisite concessional debt funding for the agricultural development.

### **Dividend**

An interim dividend of 33.0 cents per share (2006: 30.0 cents) has been declared. It is anticipated that for the full year the dividend will be twice covered by headline earnings.

### **Prospects**

Results for the current year will be impacted by the level of the rand compared to other currencies, the world sugar price, and final sugar production. Provided there is no major change to these factors, it is anticipated that, for the year ending 31 March 2008, modest growth in earnings in real terms will be achieved. The profit forecast has been examined by our auditors, Deloitte & Touche, and their unqualified accountants' report is available for inspection at the company's registered office.

On behalf of the Board

**R A Williams**  
Chairman

**D G MacLeod**  
Managing Director

Mount Edgecombe  
13 November 2007

## GROUP INCOME STATEMENT

	Notes	Actual Unaudited Six months ended 30 September		Sugar season basis Unaudited Six months ended 30 September		Change %	Actual Audited Year ended 31 March 2007
		2007 Rm	2006 Rm	2007 Rm	2006 Rm		2007 Rm
<b>Revenue</b>		<b>2 959.7</b>	2 822.1	<b>3 428.0</b>	3 258.9	5	6 263.6
<b>Operating profit</b>		<b>695.3</b>	639.0	<b>523.7</b>	516.1	1	1 034.3
Net financing costs	1	<b>72.7</b>	32.9	<b>72.7</b>	32.9		96.4
<b>Profit before material items</b>		<b>622.6</b>	606.1	<b>451.0</b>	483.2		937.6
Material items	2	<b>0.8</b>	0.4	<b>0.8</b>	0.4		4.2
<b>Profit before taxation</b>		<b>623.4</b>	606.5	<b>451.8</b>	483.6		942.1
Taxation		<b>126.2</b>	191.8	<b>89.9</b>	159.1		288.3
<b>Profit after taxation</b>		<b>497.2</b>	414.7	<b>361.9</b>	324.5		653.8
Attributable to outside shareholders in subsidiary companies		<b>103.4</b>	86.8	<b>76.3</b>	64.7		137.3
<b>Net profit attributable to shareholders in Illovo Sugar Limited</b>		<b>393.8</b>	327.9	<b>285.6</b>	259.8	10	516.5
<b>Determination of headline earnings :</b>							
Net profit attributable to shareholders		<b>393.8</b>	327.9	<b>285.6</b>	259.8	10	516.5
Adjusted for :							
Profit on disposal of property		<b>(0.8)</b>	(0.4)	<b>(0.8)</b>	(0.4)		( 3.7)
(Profit)/loss on disposal of plant and equipment		<b>(0.8)</b>	(0.2)	<b>(0.8)</b>	(0.2)		2.5
<b>Headline earnings</b>		<b>392.2</b>	327.3	<b>284.0</b>	259.2	10	515.3
Number of shares in issue (millions)		<b>349.3</b>	348.7	<b>349.3</b>	348.7		348.9
Weighted average number of shares on which headline earnings per share are based (millions)		<b>349.2</b>	342.3	<b>349.2</b>	342.3		345.5
<b>Headline earnings per share (cents)</b>		<b>112.3</b>	95.6	<b>81.3</b>	75.7	7	149.1
Diluted headline earnings per share (cents)		<b>111.5</b>	94.8	<b>80.9</b>	75.2		147.7
Dividend per share (cents)		<b>33.0</b>	30.0	<b>33.0</b>	30.0	10	75.0

**ABRIDGED GROUP BALANCE SHEET**

	Actual Unaudited 30 September 2007		Sugar season basis Unaudited 30 September 2007		Actual Audited 31 March 2007
	Rm	2006 Rm	Rm	2006 Rm	Rm
<b>ASSETS</b>					
<b>Non-current assets</b>	<b>2 806.4</b>	2 661.7	<b>2 806.4</b>	2 661.7	2 576.8
Property, plant and equipment	2 064.2	1 910.4	2 064.2	1 910.4	1 841.0
Cane roots	691.5	677.8	691.5	677.8	661.6
Investments	50.7	73.5	50.7	73.5	74.2
<b>Current assets</b>	<b>3 468.3</b>	3 082.1	<b>3 468.3</b>	3 082.1	1 891.4
Inventories	1 676.8	1 433.3	1 676.8	1 433.3	510.1
Growing cane	733.0	739.8	733.0	739.8	743.1
Accounts receivable	1 058.5	840.4	1 058.5	840.4	638.2
Financial instruments	-	68.6	-	68.6	-
<b>Total assets</b>	<b>6 274.7</b>	<b>5 743.8</b>	<b>6 274.7</b>	<b>5 743.8</b>	<b>4 468.2</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Total equity</b>	<b>2 457.9</b>	2 161.9	<b>2 322.6</b>	2 071.7	2 228.3
Equity holders' interest	1 965.8	1 706.4	1 857.6	1 638.3	1 771.7
Minority shareholders' interest	492.1	455.5	465.0	433.4	456.6
<b>Non-current liabilities</b>	<b>2 124.0</b>	2 026.4	<b>2 124.0</b>	2 026.4	846.0
Deferred taxation	546.6	573.3	546.6	573.3	574.3
Net borrowings	1 577.4	1 453.1	1 577.4	1 453.1	271.7
<b>Current liabilities</b>	<b>1 692.8</b>	1 555.5	<b>1 828.1</b>	1 645.7	1 393.9
Accounts payable and provisions	1 558.4	1 555.5	1 693.7	1 645.7	1 303.3
Financial instruments	134.4	-	134.4	-	90.6
<b>Total equity and liabilities</b>	<b>6 274.7</b>	<b>5 743.8</b>	<b>6 274.7</b>	<b>5 743.8</b>	<b>4 468.2</b>

**OTHER SALIENT FEATURES**

Operating margin (%)	23.5	22.6	15.3	15.8	16.5
Gearing (%)	64.2	67.2	67.9	70.0	12.2
Interest cover (times)	9.6	19.4	7.2	15.7	10.7
Net asset value per share (cents)	703.7	620.0	664.9	594.1	638.7
Depreciation	92.4	72.7	92.4	72.7	140.4
Capital expenditure	281.7	108.1	281.7	108.1	220.7
- expansion	200.6	62.1	200.6	62.1	90.5
- product registration costs	7.6	3.7	7.6	3.7	5.5
- replacement	73.5	42.3	73.5	42.3	124.7
Capital commitments	2 861.7	199.4	2 861.7	199.4	1 799.0
- contracted	873.3	44.0	873.3	44.0	29.2
- approved but not contracted	1 988.4	155.4	1 988.4	155.4	1 769.8
Lease commitments	65.0	103.0	65.0	103.0	92.9
- land and buildings	19.3	36.0	19.3	36.0	30.6
- other	45.7	67.0	45.7	67.0	62.3
Contingent liabilities	4.6	6.3	4.6	6.3	5.2

**ABRIDGED GROUP CASH FLOW STATEMENT**

	Actual Unaudited Six months ended 30 September 2007		Sugar season basis Unaudited Six months ended 30 September 2007		Actual Audited Year ended 31 March 2007
	Rm	Rm	Rm	Rm	Rm
<b>Cash flows from operating and investing activities</b>					
Cash operating profit	728.4	678.5	556.8	555.6	1 058.7
Working capital requirements	(1 382.2)	(1 001.9)	(1 210.6)	(879.0)	(61.0)
Cash (utilised by)/generated from operations	(653.8)	(323.4)	(653.8)	(323.4)	997.7
Replacement capital expenditure	(73.5)	(42.3)	(73.5)	(42.3)	(124.7)
Financing costs, taxation and dividend	(433.0)	(350.6)	(433.0)	(350.6)	(608.4)
Net investment in future operations	(196.1)	(71.2)	(196.1)	(71.2)	(113.2)
Other movements	2.7	2.3	2.7	2.3	30.4
<b>Net cash (outflow) / inflow before financing activities</b>	<b>(1 353.7)</b>	<b>(785.2)</b>	<b>(1 353.7)</b>	<b>(785.2)</b>	<b>181.8</b>

**STATEMENT OF CHANGES IN EQUITY**
**Share capital and share premium**

Balance at beginning of the period	354.5	298.4	354.5	298.4	298.4
Issue of new shares	3.0	55.3	3.0	55.3	56.1
Balance at end of the period	357.5	353.7	357.5	353.7	354.5

**Share-based payments reserve**

Balance at beginning of the period	10.9	8.1	10.9	8.1	8.1
Share-based payment expense	0.7	2.7	0.7	2.7	2.8
Balance at end of the period	11.6	10.8	11.6	10.8	10.9

**Non-distributable reserves**

Balance at beginning of the period	146.3	122.1	146.3	122.1	122.1
Realised profit on disposal of land	0.8	-	0.8	-	3.7
Effect of foreign currency translation	(41.9)	80.8	(41.9)	80.8	13.2
Effect of cash flow hedges	(4.5)	(40.7)	(4.5)	(40.7)	7.3
Balance at end of the period	100.7	162.2	100.7	162.2	146.3

**Retained surplus**

Balance at beginning of the period	1 103.0	852.3	1 103.0	852.3	852.3
Realised profit on disposal of land	(0.8)	-	(0.8)	-	(3.7)
Transfer to dividend reserve	(114.8)	(103.2)	(114.8)	(103.2)	(262.1)
Net profit for the period	393.8	327.9	285.6	259.8	516.5
Balance at end of the period	1 381.2	1 077.0	1 273.0	1 008.9	1 103.0

**Dividend reserve**

Balance at beginning of the period	157.0	144.6	157.0	144.6	144.6
Transfer from retained surplus	114.8	103.2	114.8	103.2	262.1
Dividends paid	(157.0)	(145.1)	(157.0)	(145.1)	(249.7)
Balance at end of the period	114.8	102.7	114.8	102.7	157.0

**Equity holders' interest**

	1 965.8	1 706.4	1 857.6	1 638.3	1 771.7
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**Minority shareholders' interest**

Balance at beginning of the period	456.6	388.0	456.6	388.0	388.0
Effect of foreign currency translation	12.0	24.9	12.0	24.9	13.1
Dividends paid	(82.6)	(47.1)	(82.6)	(47.1)	(84.5)
Increase in shareholding	2.7	2.9	2.7	2.9	2.7
Net profit for the period	103.4	86.8	76.3	64.7	137.3
Balance at end of the period	492.1	455.5	465.0	433.4	456.6

<b>Total equity</b>	<b>2 457.9</b>	<b>2 161.9</b>	<b>2 322.6</b>	<b>2 071.7</b>	<b>2 228.3</b>
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## SEGMENTAL ANALYSIS

	Actual Unaudited Six months ended 30 September		Sugar season basis Unaudited Six months ended 30 September				Actual Audited Year ended 31 March
	2007 Rm	2006 Rm	2007 Rm	%	2006 Rm	%	2007 Rm

### BUSINESS SEGMENTS

#### Revenue

Sugar production	1 720.1	1 672.1	2 490.6	73	2 348.1	72	4 410.7
Cane growing	985.1	910.4	682.9	20	671.2	21	1 344.8
Downstream	254.5	239.6	254.5	7	239.6	7	508.1
	<u>2 959.7</u>	<u>2 822.1</u>	<u>3 428.0</u>		<u>3 258.9</u>		<u>6 263.6</u>

#### Operating profit

Sugar production	295.0	224.8	325.6	62	336.5	65	605.6
Cane growing	350.8	380.4	148.6	28	145.8	28	341.0
Downstream	49.5	33.8	49.5	10	33.8	7	87.7
	<u>695.3</u>	<u>639.0</u>	<u>523.7</u>		<u>516.1</u>		<u>1 034.3</u>

#### Total assets

Sugar production	3 997.7	3 549.0	3 997.7	64	3 549.0	62	2 253.1
Cane growing	1 934.8	1 882.4	1 934.8	31	1 882.4	33	1 930.9
Downstream	342.2	312.4	342.2	5	312.4	5	284.2
	<u>6 274.7</u>	<u>5 743.8</u>	<u>6 274.7</u>		<u>5 743.8</u>		<u>4 468.2</u>

### GEOGRAPHICAL SEGMENTS

#### Revenue

South Africa	1 172.7	1 175.2	1 594.0	46	1 477.5	46	2 824.1
Malawi	489.5	443.7	592.1	17	535.1	16	1 137.5
Zambia	529.4	484.9	543.6	16	592.3	18	1 053.1
Swaziland	428.4	370.7	338.8	10	321.7	10	612.8
Tanzania	165.1	176.9	231.2	7	232.6	7	423.3
Mozambique	174.6	170.7	128.3	4	99.7	3	212.8
	<u>2 959.7</u>	<u>2 822.1</u>	<u>3 428.0</u>		<u>3 258.9</u>		<u>6 263.6</u>

#### Operating profit

South Africa	61.0	107.5	110.1	21	126.4	24	213.1
Malawi	313.4	179.8	209.5	40	171.6	33	408.5
Zambia	184.4	198.0	89.1	17	119.8	23	232.3
Swaziland	73.8	71.0	44.5	9	44.4	9	68.9
Tanzania	27.0	36.8	53.5	10	50.4	10	93.6
Mozambique	35.7	45.9	17.0	3	3.5	1	17.9
	<u>695.3</u>	<u>639.0</u>	<u>523.7</u>		<u>516.1</u>		<u>1 034.3</u>

## NOTES TO THE FINANCIAL STATEMENTS

	Unaudited Six months ended 30 September <b>2007</b> Rm	2006 Rm	Audited Year ended 31 March 2007 Rm
<b>1. Net financing costs</b>			
Interest paid	<b>87.6</b>	92.6	153.4
Interest received	<b>( 18.4)</b>	( 47.0)	( 27.8)
Foreign exchange losses/(gains)	<b>3.5</b>	( 11.6)	( 27.8)
Dividend income	-	( 1.1)	( 1.4)
	<u><b>72.7</b></u>	<u>32.9</u>	<u>96.4</u>
<b>2. Material items</b>			
Profit on disposal of property	<b>0.8</b>	0.4	4.2
<b>Material profit before taxation</b>	<b>0.8</b>	0.4	4.2
Taxation	-	-	( 0.5)
<b>Material profit attributable to shareholders in Illovo Sugar Limited</b>	<u><b>0.8</b></u>	<u>0.4</u>	<u>3.7</u>

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Company Registration no. 1906/000622/06  
Share code ILV  
ISIN ZAE000083846

## DECLARATION OF DIVIDEND NO. 32

Notice is hereby given that an interim dividend of 33.0 cents per share has been declared on the ordinary shares of the company in respect of the six months ended 30 September 2007.

In accordance with the settlement procedures of Strate, the company has determined the following salient dates for the payment of the dividend :

Last day to trade cum-dividend	Thursday, 27 December 2007
Shares commence trading ex-dividend	Friday, 28 December 2007
Record date	Friday, 4 January 2008
Payment of dividend	Monday, 7 January 2008

Share certificates may not be dematerialised / rematerialised between Friday, 28 December 2007 and Friday, 4 January 2008, both days inclusive.

By order of the Board

G D Knox                      Mount Edgecombe  
*Company Secretary*        13 November 2007

### Directors :

R A Williams (Chairman)\*, D G MacLeod (Managing Director), M I Carr##. G J Clark (Australian), B P Connellan\*, D Konar\*, D R Langlands##, P A Lister##, P M Madi\*, I N Mkhize\*, R A Norton\*, J T Russell, M J Shaw\*, B M Stuart, K Zarnack

# British      \* *Non-executive*

### Registered office :

Illovo Sugar Park, 1 Montgomery Drive, Mount Edgecombe, KwaZulu-Natal, South Africa

### Postal address :

P O Box 194, Durban, 4000

Website : [www.illovosugar.com](http://www.illovosugar.com)

### Transfer Secretaries :

Link Market Services South Africa (Proprietary) Limited : 11 Diagonal Street, Johannesburg, 2001,  
P O Box 4844, Johannesburg, 2000

### Auditors :

Deloitte & Touche

### Sponsor :

J P Morgan Equities Limited